Government backs Enron to borrow costlier money

943. SHRI VIREN J. SHAH: Will the Minister of FINANCE be pleased to state:

(a) whether Government's attention has been drawn to a report that appeared in the 'Indian Express'. Bombay dated September 2, 1994 captioned, "Government backs Enron to borrow costlier money", if so what are the facts in this regard;

(b) whether it is a fact that Indian financial institutions including HDFC, ICICI and IFCI have been discouraged from raising funds from abroad at less than seven per cent, if so, what are the reasons therefor;

(c) whether it is also a fact that Enron company which is to set up a power project in Maharashtra, has been permitted to raise from abroad funds at 12 per cent;

(d) if so, what are the reasons therefor;

(e) to what extent this incidence of interest on borrowings by Enron will be passed on to Government in view of the fact that 12 year bond carries the Indian Government's counter guarantee; and

(f) whether this will not have an adverse impact on the cost of power to be supplied to the consumers in Maharashtra by Enron and if so, what are the details in this regard?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M.V. CHANDRASHEKARA MURTHY): (a) and (b) Yes, Sir. The newspaper report states that Enron has been permitted to raise USD 650 million abroad at 12% p.a. while Indian financial institutions, including HDFC, ICICI and IFCI. have been prevented from raising funds at 7% p.a. The factual basis of comparison made in the report is, however, incorrect. Government has recently approved external commercial borrowings for several financial institutions, including ICICI and IFCI. Comparisons of interes rates would also need to take account of loan Maturities and of different categories of financing, viz., project finance new companies in infrastructure development as against commercial loans to manufacturing or financial companies with strong trackrecords and good balance sheets . For these reasons, a comparison of interest rates alone would not be indicative o whether one form of financing i necessarily more expensive, when discounted for risks of the lending by creditors.

(c) and (d) The Dabhol Powe Company has been granted approva to raise project finance of upto USI 550 million in the international capital markets at a weighted average al in-forcign currency spread over U Treasuries of 2.4% p.a. This is nc out of line with rates prevailin internationally for financing c infrastructure projects.

(e) The borrowings by th Dabhol project by way of bond issu or other external borrowing do n carry a counter guarantee by Gover ment of India. The counter guarant relates to the payment for power su plied to the Maharashtra State El tricity Board in the event of non pa ment by Maharashtra State Electric Board and also by the State Gover ment.

(f) In view of the fixed tariff f each calender year, increases interest, costs on foreign loans w not be passed on through the tariff ultimate consumers of electrici Further, the power supplied by Dabhol Power Company to Maharasht State Electricity Board will be poo into its grid and will be distributed the consumers as per the prevail tariff schedule of Maharashtra St Electricity Board.